

**REPORT OF THE AUDIT OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For the Period
January 1, 2007 Through September 4, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For the Period
January 1, 2007 Through September 4, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Lee County Sheriff for the period January 1, 2007 through September 4, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$530,776 for the districts for 2006 taxes, retaining commissions of \$22,148 to operate the Sheriff's office. The Sheriff distributed taxes of \$506,717 to the districts for 2006 Taxes. Taxes of \$1,644 are due to the districts from the Sheriff and refunds of \$63 are due to the Sheriff from the extension district.

Report Comments:

- The Sheriff Should Distribute Tax Collections By The Tenth Of The Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$61,180 And Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of June 1, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$61,180

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the Lee County Sheriff's Settlement - 2006 Taxes for the period January 1, 2007 through September 4, 2007. This tax settlement is the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 29, 2008 our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Distribute Tax Collections By The Tenth Of The Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$61,180 And Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

January 29, 2008

LEE COUNTY
DONNIE HOGAN, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period
January 1, 2007 Through September 4, 2007

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Transferred From Outgoing Sheriff	\$ 97,709	\$ 46,100	\$ 83,925	\$ 38,555
Franchise Taxes	138,525	49,901	84,933	
Unmined Coal	435	212	389	166
Additional Billings	734	357	655	281
Oil and Gas Property Taxes	44,068	21,442	39,332	16,838
Additional Billings-Oil	9,125	4,440	8,144	3,486
Penalties	6,339	3,027	5,502	2,479
Gross Chargeable to Sheriff	296,935	125,479	222,880	61,805
<u>Credits</u>				
Exonerations	2,651	1,245	2,253	1,087
Exonerations-Oil	22	11	20	8
Discounts	783	381	699	299
Delinquents:				
Real Estate	21,901	10,614	19,470	8,335
Tangible Personal Property	2,693	834	1,423	1,668
Oil	3,667	1,784	3,273	1,401
Unmined Coal - 2006 Taxes	435	212	389	166
Franchise Taxes	41,088	16,109	31,402	
Total Credits	73,240	31,190	58,929	12,964
Taxes Collected	223,695	94,289	163,951	48,841
Less: Commissions *	9,507	4,007	6,558	2,076
Taxes Due	214,188	90,282	157,393	46,765
Taxes Paid	212,964	89,849	157,265	46,639
Refunds (Current and Prior Year)	112	57	112	49
		**		
Due Districts				
as of Completion of Audit	\$ 1,112	\$ 376	\$ 16	\$ 77

* And ** See Next Page

Accompanying notes are an integral part of this financial statement.

LEE COUNTY
DONNIE HOGAN, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES
For The Period January 1, 2007 Through September 4, 2007
(Continued)

* Commissions:

4.25% on \$ 366,825

4% on \$ 163,951

** Special Taxing Districts:

Library District	\$	238
Health District		87
Extension District		(63)
Soil Conservation District		114
		<hr/>

Due Districts or		
(Refunds Due Sheriff)	\$	<u><u>376</u></u>

LEE COUNTY
NOTES TO FINANCIAL STATEMENT

September 4, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENT
September 4, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On June 1, 2007, \$61,180 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$61,180

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was January 12, 2007 through September 4, 2007.

Note 4. Interest Income

The Lee County Sheriff earned \$315 as interest income on 2006 taxes. The Sheriff did not distribute the appropriate amount to the school district as required by statute. As of January 29, 2008, the Sheriff owed \$93 in interest to the school district and \$222 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Lee County Sheriff collected \$10,876 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Lee County Sheriff collected \$3,120 of advertising costs and advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office. As of January 29, 2008, the Sheriff owed \$75 in advertising costs to the county and \$90 in advertising fees to his fee account.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2006 taxes, the Sheriff had \$1,861 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Steve Mays, Lee County Judge/Executive
Honorable Donnie Hogan, Lee County Sheriff
Members of the Lee County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Lee County Sheriff's Settlement - 2006 Taxes as of September 4, 2007, and have issued our report thereon dated January 29, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lee County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lee County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff 's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lee County Sheriff's Settlement - 2006 Taxes as of September 4, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Tax Collections By The Tenth Of The Month
- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$61,180 And Enter Into A Written Agreement To Protect Deposits

The Lee County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Lee County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

January 29, 2008

COMMENTS AND RECOMMENDATIONS

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2007 Through September 4, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Tax Collections By The Tenth Of The Month

The Sheriff did not report and distribute money collected during the preceding month by the tenth of each month as required by KRS 134.300. We recommend the Sheriff comply with KRS 134.300, which requires the reporting and distribution of each month's collections by the tenth of the following month.

Sheriff's Response: We had a problem with the tax software in 2006. Therefore, the distributions fell behind schedule in the last month while we were trying to find the problem and get it fixed.

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly "that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff's fee account. During the 2006 tax collections, the Sheriff earned interest of \$315 on his tax account. As of June 1, 2007, the Sheriff owed the Lee County Board of Education \$93 and the fee account \$222. We recommend the Sheriff comply with KRS 134.140(3)(b) by paying the amount of interest due to the school and fee account on a monthly basis.

Sheriff's Response: Being newly elected, we did not know of this law and failed to comply.

The Sheriff Should Require The Depository Institution To Pledge Or Provide Additional Collateral Of \$61,180 And Enter Into A Written Agreement To Protect Deposits

On June 1, 2007, \$61,180 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the \$100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. We also recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Sheriff's Response: We will comply.

LEE COUNTY
DONNIE HOGAN, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period January 1, 2007 Through September 4, 2007
(Continued)

INTERNAL CONTROL - MATERIAL WEAKNESSES:

The Sheriff's Office Lacked Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. The bookkeeper collected tax money, prepared bank deposits, prepared daily checkout sheets, prepared checks. The Sheriff should either segregate these duties or strengthen internal controls by reconciling reports to source documents, reviewing monthly tax reports, mailing checks for disbursements, and preparing bank reconciliations.

Sheriff's Response: We will comply.

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